

IMPASSE WITH ICELAND OVER 1951 DEFENSE  
AGREEMENT

- I. Serious impasse with Iceland over  
American air base
  - A. Jeopardizes negotiations, now in  
fifth month, for revising im-  
plementation of 1951 Agreement.
  - B. Raises danger of Agreement itself  
being denounced by Iceland.
- II. Parliament adjourns on 14 April for  
Easter and Foreign Minister Gudmundsson  
considers he must make status report  
on negotiations for
  - A. Reducing contacts between Icelan-  
ders and the 3900 American troops
  - B. Gradually eliminating American  
contractors and several hundred  
construction workers. [REDACTED]

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- III. Gudmundsson's failure to make  
satisfactory statement could cause  
fall of Conservative-Progressive

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coalition, because

- A. All political parties very sensitive on impact of Americans on Iceland's culture and society
- B. Iceland now less concerned than before over ties to West
  - 1. Relaxation of East-West tension
  - 2. Two-year trade agreement with USSR on 1 August provided:
    - a. Icelandic exports in first year amounting to \$10,000,000--or 25 percent of all 1952 exports
    - b. Icelandic imports of \$6,000,000--or 10 percent of all 1952 imports.
    - c. USSR to supply key commodities, e.g.

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*fuel oil*  
petroleum, cement, pipe-  
and buy surplus fish.

IV. Any successor government would probably  
take even stronger line on base issue

A. In a showdown, Iceland could re-  
fer 1951 bilateral agreement to  
NATO for "recommendation."

1. Two governments would then  
be given 6 months to reach  
understanding.

2. Failing understanding,  
Iceland could then declare  
agreement abrogated at end  
of 12 months.